How has COVID-19 affected income, consumption and saving inequality in the euro area?

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We use various household-level datasets to study the effects of the COVID-19 pandemic on labour income, consumption and saving of individual euro area households. First, exploiting information on the sector of employment in the European Union Statistics on Income and Living Conditions (EU-SILC), we document that the impact of COVID-19 is regressive across the income distribution, with unemployment risk skewed towards households in lower income quintiles. Analysing heterogeneities across different socio-demographic groups we find that young workers and women are more likely to be employed in sectors subject to lockdown measures such as hospitality, travel, arts and entertainment. Looking at cross-country differences we show that the pandemic has impacted euro area economies differently because of the underlying differences in their economic structures, with Spain and Italy showing the highest share of employees in sectors under strict lockdown measures among the six largest euro area countries.

Second, using the Household Budget Survey we document that lockdown restrictions reduced overall households’ consumption, particularly for the top quintiles of the income distribution. By exploiting the different components of consumption we decompose overall household spending into necessities, non-necessities, and postponable spending. Necessities include items unaffected by lockdown measures, such as food at home, housing and utilities, health items, communication and education. Non-necessities include items directly restricted by the lockdown measures, such as food in restaurants, transport services, holidays, hotels and cultural services. Finally, postponable spending includes items such as motor vehicles, clothing and footwear, and furnishings and furniture. We show that lockdown measures decreased aggregate consumption as all households stopped buying non-necessities (e.g. accommodation, arts and entertainment) and drastically reduced their purchases of postponable goods. We estimate that the decrease in consumption is particularly driven by the reduction in spending of higher-income households. Hence, we conclude that households in the top of the income distribution contribute disproportionately to the unprecedented increase in the aggregate saving rate for two reasons. First, they spend a higher share of their consumption on goods and services restricted by lockdowns. Second, their income has been less exposed to the COVID-shock.

Third, we use the Household Finance and Consumption Survey to document considerable heterogeneities in availability of liquid assets to maintain expenses in case of a job loss, with lower quintiles of the income distribution holding a much smaller buffer of liquid assets (also relative to their income). We document for how long these liquid assets would last in case household labour incomes were reduced.

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